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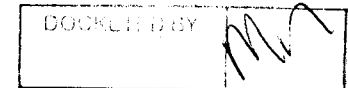
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Arizona Corporation Commission

DOCKETED

Re: **Utility Systems, LLC. Response to Staffs' Response to Companys' Exceptions to Staffs
Report On The Rate Application For Christopher Creek Haven Water**

Docket No. W-20459A-08-0167



TO ALL PARTIES:

In reference to the Staffs response dated 2-17-08 to our Exceptions to Staff Report, we would like to express our disagreement. Some of our responses have already been expressed in our responses for Gardner but we will reiterate here for Docket purposes.

Depreciation Tables:

The rate application provided by your organization did not include the accounts 305, 306, 308, 309, 310 or 342. Please reference page 20 of the rate application. Also we recently received the forms from you for preparation of the 2008 annual report which also has these accounts missing. We feel that if you are going to request that we "dot every i and cross every t" you should do the same. These forms are produced by your organization and should include any required information. How would we know to include information that is not requested?

Furthermore, according to the 1996 NARUC manual, which appears to be the latest revision:

Account 305 is "Collecting and Impounding Reservoirs", we don't have any.

Account 306 is "Lake, River and other Intakes", we don't have any.

Account 308 doesn't exist.

Account 309 is "Supply Mains" which we included in account 331, which seemed the most appropriate considering there is no account 309 on your form.

Account 310 is "Power Generation Equipment", we have none.

Account 342 doesn't exist.

As mentioned previously, we did not have access to the depreciation table involved in decision #64197. As you can see, we followed the depreciation table you provided to the best of our ability.

NARUC USOA:

We find this to be very insulting. We have gone out of our way to follow NARUC. They do not follow GAAP and this has caused an additional burden of having to keep standard GAAP records for accounting and taxes and separate records for you following NARUC.

We purchased the company in late July of 06 contingent on the approval of the Commission. As part of our purchase agreement the previous owner acted as consultant for 1 year after the purchase. As part of the consulting agreement, because he was more experienced with the companies, the commission had not yet approved the sale of the companies and he also owned the companies for more of the 2006 year than we did, the previous owner completed the Annual Reports for 2006. The Commission approved the sale in 2007 and this is when we took full responsibility for all operations. We cannot be held responsible for what the previous owner did.

The computers and software were purchased in 2006 when we purchased the companies and we do have documentation for their purchases. Therefore, they would not be included in the 2007 plant additions.

Customer Count

As mentioned above, we did not fully own the company prior to 2007, did not file the previous Annual Reports and should not be reprimanded for the previous owners actions. We filed 2007 with separate customer counts and will continue to do so.

Unauthorized Loans:

We have previously stated our opinion on this issue and feel we have stated our case sufficiently. We feel for some reason Staff is being prejudiced on this issue. The loans and liabilities that came with the company were understood to be part of the purchase by the previous owners and ourselves. The Staff and Commission were informed of the loans involved and the Commission approved of the sale. Staff considers this information to simply be "informational" for "background" and that is unacceptable as \$220,000 in loans and \$60,000 in cash are very pertinent to these transfers. Additionally, there appears to be a double standard relating to the vehicle and the company assets. Both are owned by us and used by the divisions. The divisions lease the vehicle from us but there is no compensation for the divisions use of the assets.

These divisions and overall company operations require our full time attention and are my only income. If these loans cannot be paid through company expenses or wages then we have no choice other than to consider bankruptcy. If there was some procedural issue that was not addressed properly at the time by the Commission, then it needs to be resolved immediately. We purchased these companies with good intent have improved the service provided and would like to continue to operate these divisions to our best ability.

Financial Health

The Company proposed operating margin is based on expected increases in expenditures to maintain the rapidly failing system and not on the previous expenditures that have kept the division in the poorly maintained state that it is in. Therefore, the Staffs statement that the proposed operating margin of 62..90% is completely false. With an increase in revenue there will obviously be an increase in expenditures so the expenses of the previous years cannot be assumed to be the expenses of in future years as Staff has assumed and stated. The operating margin of Staff also includes changes to expenses that are invalid and severely alter the actual expenses of the division as mentioned above. Finally, the Commission in the prior decision is who stated the poor financial status of the divisions, we simply agree with them.

Operating Expenses:

We appreciate that staff has included higher operating expenses than the company has requested. We also feel these are needed increases. Unfortunately, the increase of \$4,599 is severely counteracted by the removal of \$13,679 in operating income(loss) and expenses.

We did not pay ourselves in full during 2007 due to the poor financial status of these divisions. As previously mentioned, these divisions are small in comparison to other water systems but require more than the average water system to operate. They exist in mountainous terrain, we have to deal with 2-3 feet of snow at times, the roads are dirt and encounter extreme erosion during heavy rains or snow, there are no maps of where main lines or services are located, the ground is mostly hard clays or caliche, distance between services are further than urban areas, etc... We feel at minimum we should receive the average Water Operator salary if not more. Further, we also perform duties not normal to an operators duties such as meter reading, billing, excavation, welding, customer service, etc... Between the two

systems we easily perform a full time position and more. We are available 24 hours a day and 7 days a week. I have found myself sitting on top of a water tank at 11:30 pm with a foot of snow and 20 degrees F. fixing a stuck float switch. These are extraordinary circumstances.

Regulatory commission expense had no effect on the 2007 test year. Expenses for Commission expense in 2008 was simply considered part of wages and postage. Further, considering a \$500 expense, at even \$10/hr there was much more than 50 hours spent on this plus postage.

Finally, we would like to add that we are presently operating without General Liability Insurance because of the expense. We do need consideration for this included in the operating expenses of the rate application.

Service Charges:

Please review our previous explanations and reasoning for proposed service charges. Additionally, The Staff recommended change in late fees **are not** consistent with prior Commission decisions. Considering that Staff recommended a \$5.00 late fee for Gardner in Decision# 64197 approved by the Commission and although not recommended by Staff the Commission Ordered a \$3.00 late fee in Decision# 65353 for Christopher Creek Haven. These fees **are** consistent with previous Commission decisions. Staffs recommendations in our rate application are not appropriate.

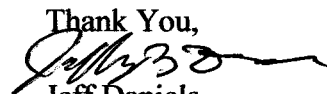
Plant Adjustments Made To Depreciation

We have provided all records requested by Staff. The only additions to plant were the purchase of a laptop to assist with meter reading and the purchase of the vehicle. We provided receipts for both. The truck has been dealt with otherwise. The truck is used solely for business purposes therefore we did not consider it to be personal property.

We have previously searched the commission website to find information related to the rate application submitted by the previous owners in 2001. Due to the extremely slow speed of our dial-up connection and the confusing arrangement of E-Docket we were unable to find the application and other documentation. We didn't think it existed. Being informed that it is definitely available on the website we have since spent some more time searching the website and have found the information although it is very slow to retrieve. We can now use this as a starting point for calculating accumulated depreciation.

Conclusion:

Our main concerns are Commission approval of the Long-Term Debt and wages for Water Operator duties as mentioned above. Finally, consideration of the age of this system and it's need to build capital for the needs of it's poor infrastructure. We have recently lost one main storage tank because the bottom has rusted through and our main well pump has failed with a replacement cost for the pump of \$1,900 plus tax and labor. This will cause us to implement water restrictions this summer for the first time in over 4 years because we do not have the funds to replace them.

Thank You,

Jeff Daniels